
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: February 28, 2008

IBA Report Number: 08-17

City Council Meeting Date: March 3, 2008

Item Number: 150

Recommended Fiscal Year 2008 Mid-Year Budget Adjustment

OVERVIEW

On January 30, 2008, the Chief Financial Officer presented the Fiscal Year 2008 Mid-Year Budget Monitoring Report (Report No. 08-005), including recommended budget adjustments, to the Budget and Finance Committee. In summary, these adjustments would have increased the General Fund appropriations by \$14.28 million, utilizing \$5,608,000 in additional revenues to be received by the Environmental Services and Fire-Rescue Departments, and \$8,675,000 from the General Fund Unallocated Reserve.

The IBA also presented a review of these actions (IBA Report No. 08-10) primarily recommending that most budget adjustments be postponed until additional revenue and expenditure data can be compiled and analyzed. Further, budget adjustments for wildfire- and landslide-related costs were recommended to be made, once these costs and related adjustments could be isolated and estimated for the fiscal year.

The Budget and Finance Committee voted to forward the requested budget adjustments to the full City Council in early March based on seven periods of financial data to be provided to the Council by the CFO. The Committee also requested responses from the CFO to the concerns raised on page 14 of the IBA's report, and necessary revisions to the original recommendations. The IBA was also requested to provide an analysis and recommendation regarding Council Policy 000-20 and the process for mid-year budget adjustments.

"No later than the third week in January, the City Manager shall present to the Mayor and City Council the Financial Status and Forecast Report. This report shall be a more in-depth, comprehensive overview of current year fiscal status, and shall also contain more refined expenditure and revenue forecasts for the upcoming fiscal year, based on the availability of six months of current year expenditure and revenue data."

- Council Policy 000-20

On February 5, 2008, the Financial Management Director issued a memorandum in response to the IBA's report, indicating that revised recommendations would be forthcoming to the City Council, and budget adjustments would be limited to increasing appropriations to fund "current and pending expenses associated with the Southern California Wildfires and other items that cannot wait until the Year-End Report."

Item 150 on the City Council docket requests the City Council to accept the Mayor's Report (08-005) as an informational item, with the updated information as presented in the Executive Summary prepared for the March 3 Council meeting. The updated information contains revised appropriation adjustments.

FISCAL/POLICY DISCUSSION

Mid-Year Appropriation Adjustments

The table below shows the original recommendations for the Mid-Year Adjustments, and the revised recommendations brought forward now to the City Council.

FY 2008 Mid-Year Appropriation Adjustments							
Fund/Department	Mid-Year Report Revenue	Mid-Year Report Expenditures	Mid-Year Report Amount of Reserves Needed	Revised Recommendations			
				Updated Revenue	Salary Transfer	Updated Expenditures	Updated Amount of Reserves
General Fund							
Fire-Rescue	\$ 2,854,000	\$ 5,985,000	\$ 3,131,000	\$ 1,392,000	\$ 1,610,000	\$ 1,392,000	\$ -
Environmental Services	2,754,000	3,926,000	1,172,000	2,754,000	-	4,926,000	2,172,000
Police	-	1,505,000	1,505,000	-	(1,610,000)	-	-
City Planning and Com. Inv.	-	1,086,000	1,086,000	-	-	-	-
Park and Recreation	-	879,000	879,000	-	-	-	-
Library	-	788,000	788,000	-	-	-	-
Family Justice Center	-	51,000	51,000	-	-	-	-
Office of the IBA	-	47,000	47,000	-	-	-	-
Council Administration	-	16,000	16,000	-	-	-	-
General Fund Total	\$ 5,608,000	\$ 14,283,000	\$ 8,675,000	\$ 4,146,000	\$ -	\$ 6,318,000	\$ 2,172,000
Publishing Services	\$ 710,218	\$ 1,107,000	\$ 396,782	\$ 710,000	\$ -	\$ 1,016,177	\$ 306,177
Golf Course Enterprise Fund	\$ -	\$ 120,000	\$ 120,000	\$ -	\$ -	\$ 120,000	\$ 120,000

The revisions reflect a reduction in the amount requested from the Unallocated Reserve, from \$8,675,000 to \$2,172,000, and include those adjustments for increased General Fund costs related to the wildfires. The adjustments now also include the reallocation of salary savings from the Police Department to the Fire-Rescue Department, instead of utilizing reserve funds for these needs. Additional adjustments may be needed prior to the end of the fiscal year, but will take into consideration revised revenue and expenditure projections based on additional data and activity.

The revised appropriation adjustments are not based on seven periods of financial data, as requested by the Budget and Finance Committee. However, efforts have been made to minimize the requested adjustments, and the immediate use of reserves, until additional data has been reviewed and analyzed. **Based on this, the IBA recommends the City Council approve the requested appropriation adjustments, as revised and described in the Executive Summary.**

Timing of FY 2008 Year-End Report

Financial Management and IBA staff met on several occasions to discuss these requested budget adjustments, as well as the timing of mid-year and year-end reporting, for this and coming fiscal years. As discussed in the previous IBA report, the most current revenue and expenditure data is a key element to be considered in the development of the next year's budget. Because of this, the Fiscal Year 2009 budget development calendar was reviewed to determine the optimal timing for the presentation of updated Fiscal Year 2008 revenue and expenditure projections, and additional budget adjustments, if needed, prior to the end of the current fiscal year. Depending on the status of these revised projections, development of the next year's budget and related decisions could be impacted. It was determined that the Year-End Report, including possible budget adjustments, could be made available by May 14, 2008, and presented to the Budget and Finance Committee on May 21, 2008, in conjunction with the Mayor's May Revise and in time for final budget decisions. This report will be based on data through Period 9 (as

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of March 7, 2008). Last year this report was provided on June 1, 2007, based on Period 10 data, and was too late to be meaningful in the budget development process. The change to this year's schedule is recommended to provide an opportunity for any significant revenue and expenditure changes to be incorporated into the development of the next year's budget, before final decisions are made.

Council Policy 000-20

As discussed at the Budget and Finance Committee, Council Policy 000-20 appears to include timeframes which are difficult to achieve. Specifically, it states "*No later than the third week in January, the City Manager shall present to the Mayor and City Council the Financial Status and Forecast Report. This report shall be a more in-depth, comprehensive overview of current year fiscal status, and shall also contain more refined expenditure and revenue forecasts for the upcoming fiscal year, based on the availability of six months of current year expenditure and revenue data.*"

As discussed in the previous IBA report, it is highly unlikely that projections reflective of data covering six months of actual experience could be developed and reported to the

City Council by the third week of January. In order to report to the Budget and Finance Committee by January 30th, the monitoring report reflects just 4.5 months of actual data due to a two month process for analysis and report writing. Unless this process can be compressed, a report reflective of six months of actual experience, which is preferable, would likely not be available until late February/early March.

IBA and Financial Management staff have preliminarily discussed possible changes in the scheduling of mid-year and year-end reporting. It should be noted that with the development and implementation of the City's Enterprise Resource Planning (ERP) system which will replace the City's aging financial systems, it is expected that many policies and procedures will be in need of revision and update. The timing and availability of data is expected to be accelerated and expanded, once ERP is operational. IBA and FM staff will continue to work on scheduling enhancements and possible revisions to the Council Policy in the months ahead.

CONCLUSION

The original recommendations for the Mid-Year Adjustments have been revised and reflect a reduction in the amount requested from the Unallocated Reserve for the General Fund, from \$8,675,000 to \$2,172,000. The IBA recommends the City Council approve the requested appropriation adjustments, as revised and described in the Executive Summary.

It was also determined that the Year-End Report based on nine periods of data, including possible budget adjustments, will be made available by May 14, 2008, and presented to the Budget and Finance Committee of May 21, 2008. It was originally anticipated that this would not occur until June 4, 2008. This change to the schedule is recommended to provide an opportunity for any significant revenue and expenditure changes to be incorporated into the budget development process.

IBA and Financial Management staff have preliminarily discussed possible changes in the scheduling of mid-year and year-end reporting. The development and implementation of the City's Enterprise Resource Planning (ERP) system is expected to impact many policies and procedures. The timing and availability of data is expected to be accelerated and expanded, once ERP is operational. IBA and FM staff will continue to work on scheduling enhancements and possible revisions to Council Policy 000-20 in the months ahead.

[SIGNED]

Elaine DuVal
Fiscal & Policy Analyst

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APPROVED: Andrea Tevlin
Independent Budget Analyst